

MYER RASHISH

2112
Sc 99 (a)

August 13, 1982

9 SEP 1982
wpc/dlg

The Honorable William Casey
Director of Central Intelligence
Central Intelligence Agency
Langley, VA 20505

Dear Bill:

I thought you might be interested in a statement on
East-West economic relations which I gave to the Senate
Foreign Relations Committee today.

With my best regards,

Mike

Aug 16 1 24 PM '82

ER

Statement of Myer Rashish

To the Committee on Foreign Relations, United States Senate

August 13, 1982

Introduction

The subject of these hearings is clearly a timely one. There exists an inordinate amount of confusion, both in the United States as in the alliance generally, about the question of East-West economic relations and the policies which the U.S. and other countries of the alliance should pursue with respect to such relations. In the words you have used to define the topic of these hearings, Mr. Chairman, the issue is one of the use of economic controls on commercial transactions with the Soviet Union as a means of affecting that country's domestic and international policies. More specifically, you have asked us to address this morning the subject of the reaction of our allies to economic measures against the Soviets. This is the central issue.

My thesis is that:

- (a) The United States (nor any member of the alliance) cannot pursue an effective policy in this field unless there exists an agreed policy or strategy in the alliance. No such agreed policy or strategy exists today and, if anything, the differences and conflicts over East-West economic relations in the alliance have become sharper and more exacerbated than ever. The Siberian natural gas pipeline is the current case in point.
- (b) These differences cannot and should not be papered over as they have been. There are differences of interest, perception and attitudes within the alliance and, unless they are explicitly addressed, no coherent policy can emerge.

c 112

- 2 -

- (c) Unless the alliance can come to grips with these issues -- and the United States cannot escape the leadership role it has, whether it wishes it or not -- the existing consensus within the alliance in other areas, political and security, will become frayed and the growing disarray will become worse.

It simply won't do to talk about "family quarrels" that will solve themselves somehow. Minister Cheysson may have been closer to the mark, as a forecast if not a description of the actual situation, when he spoke of a "progressive divorce" within the alliance. The alliance is not suffering from a head cold from which it will recover in a week's time; the ailment is serious, but not, I think, beyond treatment and cure.

We have time and again become bogged down in discussions of particular cases, such as the Siberian natural gas pipeline, without tackling the more difficult question of constructing a coherent approach to East-West economic relations that will serve the alliance for the longer term. Lacking the sort of institutional framework from which NATO benefits in the area of military security, the questions of economic security have been addressed in an ad hoc way, leading to constant bickering and a weakening of Western unity. Since this neglect has not been benign, it is time for a new design to strengthen the alliance voice in our economic relations with the East.

It is inevitable that conflicts will arise among the Allies as long as joint economic planning vis-a-vis the Warsaw Pact countries is absent. It is also inevitable that the United States will have to take the lead in establishing the proper consultative

- 3 -

mechanism. The United States is no longer a hegemonic economic power within the alliance, but is clearly the premier power. In recent years Americans have had trouble coping with this changed role. Two broad strands of thought can be discerned in the search for a way to adapt to the changed role of America. Neither of these approaches constitutes a policy worthy of the name. One is to go it alone in order to avoid the conflicts that of necessity characterize a relationship among equals. This strikes me as both nostalgic and ultimately self-defeating. The alliance will not stand still as America unilaterally pursues its foreign policy goals. American power in the world is closely connected to its membership in a community of like-minded states; a lone-ranger approach which does harm to this vital community prejudices the national interests of our country. The second form of policy escapism seeks to adjust to the changing balance of power in the alliance by following what amounts to a "lowest common denominator" approach. A devolution of responsibility to our partners born of our indecision and lack of vision is not the way to restore strength to the alliance.

What is needed is a policy made in America, but which can be exported to Europe and Japan, that will guide our economic relations with the East such as NATO serves our military security. The strains of intimacy need not only be resolved through separation or the submission of one partner to the other. In a new relationship among greater equals, our Allies as well as ourselves will have to compromise on specific issues from time to time, but our mutual interests will be served by the knowledge that the United States, the stronger partner, has committed itself to a workable strategy that will not make every little storm threaten the very structure of the alliance.

- 4 -

The United States does not have a monopoly of power and consequently cannot expect to will its preferred world in isolation. The alliance, on the other hand, does have enough critical mass to be an effective agent in world affairs. But this effectiveness is dependent on consensus within the alliance, which is in turn the only guarantee of consistency in the application of our policies. As Secretary Shultz has remarked, we must avoid "light switch" diplomacy and must orient ourselves towards a strategy that is sturdy enough to stay the course. A policy that meets these criteria has never been tried in the area of East-West economic relations. Whatever evidence there may be proving the ineffectiveness of economic sanctions and countermeasures is thus irrelevant to the present discussion. This does not mean that the alliance could successfully conduct economic warfare against the Warsaw Pact countries. Nor should we wish to. Rather, the leverage that we stand to gain from a coordinated approach will be found at the margins. This does not negate the need to pursue such a policy, though. Defense comes before opulence, as Adam Smith warned -- we cannot afford to let the market govern our economic security. Making clear that our goals are modest yet constant should be the first step in an alliance design for East-West economic relations.

Of course, even with such a careful approach it will not be easy to reach a consensus with our allies on an agenda. There are differences of interest and perception between ourselves and our partners. It is the task of diplomacy -- of alliance politics, if you will -- to work together to devise a coherent and consistent strategy for the alliance, otherwise we will not have a policy which can produce results.

- 5 -

Let me offer as a postulate that it is appropriate to apply economic controls on commercial transactions with the USSR. We do and should differentiate between economic relations with the USSR (and among the Eastern European states) and others for the same reasons that we differentiate our political, security, etc. policies vis-a-vis the USSR. We do this for a number of purposes, not only to influence the domestic and international policies of the Soviet Union, but also to protect ourselves and to enhance the gains we derive from such economic relations. The free play of market forces will not by themselves guarantee the results we seek; we have non-economic interests that can only be met by measures that limit and influence market forces. The West may have to forego certain economic benefits that derive from the free play of market forces in order to achieve non-market goals. There is a cost to security. But we practice interventions and controls that limit the play of the market in our economic relations within the West, not only through protectionist devices, but through measures that enjoy international sanction as for example in the GATT (e.g. antidumping and anti-subsidy rules).

We should try to construct within the alliance an agreed set of rules and principles to guide the conduct of the alliance in respect of economic controls on economic relations with the East. Without this, we will continue to squabble over particular issues.

Any set of rules must accommodate the divergent interests of the alliance members. This will not be easy, given the differences in interest and perception which exist. In part, these differences reflect conflicts within the alliance over basic

- 6 -

policy with regard to the East. It is no exaggeration to say that the U.S. sees itself as living in a post-detente period while some of our allies see the detente phase as continuing to prevail. But it is also true that an agreed system of rules would give all alliance members greater confidence that the costs of controls are borne by each and the compulsion to compete to cut deals with the Soviet Union would be diminished.

What might be the elements of a viable alliance policy -- of rules and principles -- to guide economic relations with the East? It is clear what they should not be. They cannot involve the suppression of economic exchanges across the board. They cannot propose the waging of full-scale economic warfare with the USSR.

The policy must identify the particular aspects of economic relations with the Soviet Union where a differentiated approach serves the interests of the alliance. It seems to me that there are, at least, four aspects that need to be covered:

1. Strategic controls designed to deny goods and technology that contribute to the Soviet war-making capacity. The COCOM arrangement is the instrument of alliance policy for this purpose. It has been in effect for about 30 years, but needs to be improved.
2. Foreign policy controls or sanctions as a response to Soviet actions, e.g. Afghanistan and Poland. Effective contingency planning can act as a deterrent. As someone observed, we may not be able to bring the Soviets to their knees, but we may be able to bring them to their senses.

- 7 -

3. Vulnerability controls designed to enhance the economic security of the alliance by limiting dependence on markets or sources of supply in the East which can expose alliance members to the exercise of Soviet influence. The pipeline issue falls under this heading, although it has a number of other facets as well.
4. Rules to guide the normal conduct of economic relations with the East so as to induce the Eastern countries to play by our rules and to discipline the alliance members in order to avoid competition among them in credits, trade, etc. that result in a net transfer of resources to the East often on terms more favorable than those available in intra-alliance transactions.

I have no illusions about the difficulties of reaching agreement on an alliance policy. I have, in fact, experienced them firsthand. At the same time, I have no illusions about the consequences of failure. We will continue to be plagued by pipeline, grain, credit and assorted problems the cumulative weight of which will seriously weaken the fabric of the alliance.